

**RURAL WATER DISTRICT NO. 2
TREGO COUNTY, KANSAS**

**Financial Statements and Independent Auditor's Reports
With Supplementary Information**

For the Year Ended December 31, 2015

**MAPES & MILLER LLP
Certified Public Accountants**

**RURAL WATER DISTRICT NO. 2
TREGO COUNTY, KANSAS**

**Financial Statements and Independent Auditor's
Reports with Supplementary Information**

For the Year Ended December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water District No. 2
Trego County, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 2, Trego County, Kansas, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Rural Water District No. 2, Trego County, Kansas, as of December 31, 2015, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements for the business-type activities of Rural Water District No. 2, Trego County, Kansas. Schedule 1 and 2 as listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2016, on our consideration of Rural Water District No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering of Rural Water District No. 2's internal control over financial reporting and compliance.

Mapes & Miller LLP

Certified Public Accountants
Quinter, Kansas

August 11, 2016

RURAL WATER DISTRICT NO. 2
TREGO COUNTY, KANSAS
Statement of Net Position
December 31, 2015

Assets	<u>Business-type Activities</u>
Cash and cash equivalents	
Unrestricted	\$ 926,095
Restricted	<u>236,496</u>
Total cash and cash equivalents	1,162,591
Accounts receivable (net of allowance for doubtful accounts)	15,633
Interest receivable	188
Prepaid insurance	14,838
CoBank Equity	1,000
Bond costs, net of amortization	66,749
Capital assets	
Construction in progress	696,698
Depreciable capital assets, net of accumulated depreciation	<u>7,367,475</u>
Total Assets	<u>9,325,172</u>
Liabilities	
Accounts payable	216,961
Interest payable	22,885
Payroll liabilities	3,547
Accrued compensated absences	7,757
Advanced water charges	41,012
Long-term liabilities	
Due within one year:	
Bond payable	90,000
Notes payable	34,506
Due in more than one year:	
Bond payable	2,495,000
Notes payable	<u>2,127,373</u>
Total Liabilities	<u>5,039,041</u>
Net Position	
Net investment in capital assets	3,384,043
Restricted for:	
Debt Service	236,496
Unrestricted	<u>665,592</u>
Total Net Position	<u>\$ 4,286,131</u>

The notes to the financial statements are in integral part of this statement.

**RURAL WATER DISTRICT NO. 2
TREGO COUNTY, KANSAS
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2015**

	<u>Business-type Activities</u>
Operating Revenues	
Water sales and monthly meter fees	\$ 801,980
Late charges	7,186
Reimbursed expenses-construction costs	15,152
Other	<u>20,356</u>
Total Operating Revenues	<u>844,674</u>
Operating Expenses	
Personnel services	91,987
Maintenance, operations, and contractual services	216,325
Amortization	3,129
Depreciation	<u>305,972</u>
Total Operating Expenses	<u>617,413</u>
Operating Income (Loss)	<u>227,261</u>
Non-Operating Revenues (Expenses)	
Member's Fees	315,000
Interest income	846
Interest expense	<u>(193,861)</u>
Total Non-Operating Revenues (Expenses)	<u>121,985</u>
Increase (Decrease) in Net Position	<u>349,246</u>
Net Position, Beginning of Year	<u>3,936,885</u>
Net Position, End of Year	<u>\$ 4,286,131</u>

The notes to the financial statements are an integral part of this statement.

**RURAL WATER DISTRICT NO. 2
TREGO COUNTY, KANSAS
Statement of Cash Flows
For the Year Ended December 31, 2015**

	<u>Business-type Activities</u>
Cash Flows From Operating Activities	
Receipts from customers	\$ 789,320
Reimbursed construction costs	15,152
Other operating revenues	27,542
Payments to suppliers for goods and services	(19,053)
Payments to employees for services	<u>(94,275)</u>
Net Cash Provided (Used) by Operating Activities	<u>718,686</u>
Cash Flows from Financing Activities	
Member's Fees	315,000
Co-Bank Equity	(1,000)
Principal paid on loans	(124,025)
Interest paid on loans	<u>(193,950)</u>
Net Cash Provided (Used) by Financing Activities	<u>(3,975)</u>
Cash Flows from Investing Activities	
Interest income	846
Acquisition and construction of capital assets	<u>(637,812)</u>
Net Cash Provided (Used) by Investing Activities	<u>(636,966)</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>77,745</u>
Cash and Cash Equivalents, Beginning of Year	<u>1,084,846</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,162,591</u></u>

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 2
TREGO COUNTY, KANSAS
Statement of Cash Flows
For the Year Ended December 31, 2015

	<u>Business-type Activities</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 227,261
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Amortization	3,129
Depreciation	305,972
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(6,109)
(Increase) decrease in prepaid expenses	(1,580)
Increase (decrease) in accounts payable	198,852
Increase (decrease) in payroll liabilities	1,981
Increase (decrease) in accrued compensated absences	(4,269)
Increase (decrease) in advanced water payments	<u>(6,551)</u>
Total Adjustments	<u>491,425</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>718,686</u></u>

The notes to the financial statements are an integral part of this statement.

**RURAL WATER DISTRICT NO. 2
TREGO COUNTY, KANSAS**

Notes to the Financial Statements

December 31, 2015

Note 1 - Summary of Significant Accounting Policies

Reporting Entity – Rural Water District No. 2, Trego County, Kansas, was incorporated on September 16, 1991. The District was formed as a public body under the provisions of K.S.A. 82a-612 et seq and is exempt from federal and state income tax.

The purpose of the District is to acquire water and water rights, to build and acquire pipelines and other facilities, and to operate the same for the purpose of furnishing water for domestic, garden, livestock, and other purposes to owners and occupants of land located within the District, and to others as authorized by the by-laws.

The District is governed by no fewer than five and no more than a nine-member board, all of which are participating members of the District. Members are elected to staggering one, two, and three-year terms. Nomination of new members is performed by the current board.

Generally accepted accounting principles of the United States of America require that the financial statements present the accounts and operations of the District and its component units, entities for which the entity is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the entity's operations. If component units exist, data from these units are combined with data from the District. Each discretely presented component unit, if any, would be reported in a separate column in the combined financial statements to emphasize that it is legally separate from the District. As of December 31, 2015, and for the fiscal year then ended, the District had no discretely presented component units or any component units required to be blended in these financial statements.

Basis of Presentation – The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Proprietary Fund Type – The District uses a proprietary fund type to account for the activities of the District in a manner similar to commercial enterprises. Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated, if applicable.

The District has one major proprietary fund and that fund accounts for the business-type activities of the District. Business-type activities are financed in whole by water fees charges to customers and accounts for the operation, maintenance, and development of water meters and pipeline, which are owned by the District.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included in the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating and Non-operating Revenues and Expenses – The District distinguishes between operating and non-operating revenues and expenses in its Statement of Revenues, Expenses and Changes in Fund Net Position. Operating revenues include water sales, monthly meter fees, late fees, and other miscellaneous reimbursements. Operating expenses include the cost attributed to administration, utilities, maintenance and operations, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenue and expenses.

Member's Fees – Each participating landowner is required to remit a membership fee for each benefit unit attached to the District's services. This fee is non-refundable and follows ownership of the property on which it is located.

Monthly Meter Fee Revenue – The District collects \$35 per month for each benefit unit attached to its system. This charge is in addition to water sales and is assessed whether or not the member used water during any given month. The purpose of the charge is to assure that funds will be available for payment of the annual loan installment. Members will be responsible for the monthly reading of the meter and assessment of a rate of \$4.10 per 1000 gallons of water consumed. A meter reading fee of \$75 will be charged to accounts for meters the District reads.

Advanced Water Payments – The District reports unearned deferred revenue in the Statement of Net Position. Advanced Water Payments arise when customers prepay fees for water usage. These advance water payments do not meet both the measurable and available criteria for recognition in the current period.

Cash and Cash Equivalents – Cash and cash equivalents (including restricted) consist of short-term investments with an original maturity of three months or less, cash on deposit, money market funds, and certificates of deposit.

Restricted Cash – Restricted cash is cash which use is limited by legal requirements. Reserve accounts represent amounts required by debt covenants to be segregated for debt payment.

Prepaid Expenses – Certain payments to vendors reflect costs applicable to future periods. These payments are recorded as prepaid expenses.

Reimbursed Expenses – Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. The reimbursed expenses are for construction costs repaid by developers.

Income Tax – The District is a governmental subdivision of the State of Kansas and is exempt from Federal and State income taxes.

Note 2 - Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on the funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The District's investments consist solely of certificates of deposit and are considered a component of cash.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by the federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2015.

At December 31, 2015, the District's carrying amount of deposits, including certificates of deposit, was \$1,162,591 and the bank balance was \$1,162,991. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$400,016 was covered by federal depository insurance and the balance of \$762,975 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

Note 3 - Accounts Receivable

All receivables from landowners or occupants are for meter fees, installation charges, or water sales. These receivables are shown net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based upon a review of delinquent accounts.

Gross accounts receivable	\$	22,090
Less: allowance for doubtful accounts		<u>(6,457)</u>
Net accounts receivable	\$	<u>15,633</u>

Note 4 - Capital Assets, Depreciation, and Amortization

Capital assets are valued at historical cost. The District generally capitalizes assets with costs of \$500 or more. Depreciation of all exhaustible capital assets is charged as an expense against operations. Depreciation is provided over the estimated useful lives using the straight-line method. Estimated useful lives in years for depreciable assets are as follow:

Non-dwelling Structures	40 years	straight-line
Vehicles and equipment	5 – 15 years	straight-line

Capital assets are reported net of accumulated depreciation. Depreciation expense was \$305,972 for the year ended December 31, 2015. A summary of capital assets and accumulated depreciation is as follows:

	<u>12/31/2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2015</u>
Capital Assets	\$ 11,456,939	0	0	11,456,939
Less: accumulated depreciation	<u>(3,783,492)</u>	<u>(305,972)</u>	<u>0</u>	<u>(4,089,464)</u>
Capital Assets, net	<u>\$ 7,673,447</u>	<u>(305,972)</u>	<u>0</u>	<u>7,367,475</u>

As of December 31, 2015, the District did not have any impaired assets.

The District is in the process of constructing additional wells. Construction in progress is as follows:

	<u>Balance 12/31/2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2015</u>
Construction in progress	\$ 58,886	637,812	0	696,698

Bond costs are amortized over the life of the bond payable and are reported net of accumulated amortization. Amortization expense was \$3,129 for the year ended December 31, 2015. A summary of bond costs and accumulated amortization is as follows:

Bond costs	\$ 78,222
Less: accumulated amortization	<u>(11,473)</u>
Bond costs, net	<u>\$ 66,749</u>

Note 5 - Contingencies

The District is subject to possible examinations by federal regulators who determine compliance with terms, conditions, laws, and regulations governing grants given to the entity in the current and prior years. These examinations may result in required refunds by the entity to the federal grantors and/or program beneficiaries.

On August 14, 2014, the District approved a contract with the option to purchase real estate for purposes of exploring for water, drilling test wells, and constructing pipelines and wells. The District may purchase one (1) acre tracts of land at \$10,000 per tract. The option may be exercised at the sole discretion of the District. The total purchase price is payable in full upon the District's approval of the seller's title. The location of each tract and the number of tracts is to be determined by the District. The option remains open and irrevocable for a period of one (1) year from the date of the signed purchase option to purchase real estate agreement. The District had not exercised its option to purchase the real estate as of December 31, 2015.

Note 6 - Compensated Absences

Full-time employees earn one week paid vacation after one full year of continuous service and two weeks paid vacation after two years. Employees may carry forward a maximum of three days of unused vacation from one calendar year to the next.

Full-time employees earn one day of sick leave per month. Sick leave may accumulate up to a maximum of ten days.

For salaried employees who work more hours per month than set forth in their employment agreement, then said employee is entitled to receive compensation time for all hours on the job which exceed the set number of hours per month. Employee will be allowed one and one-half hours off with pay. Employees can accumulate up to 700 hours of compensation time and carry forward a maximum of 500 hours of unused compensation time from one calendar year to the next.

Payment for allowed absences shall be at the employee's regular hourly rate time their average hours per day or eight hours per day, whichever is less.

The liability for accrued compensated absences as of December 31, 2015, was as follows:

Compensation Time	\$	5,664
Vacation Leave		483
Sick Leave		<u>1,610</u>
Total Accrued Compensated Absences	\$	<u><u>7,757</u></u>

Note 7 - Other Employment Benefits

The District provides a health insurance plan for all full-time employees up to a maximum contribution of \$200 per month. Any additional premium cost will be deducted from the employee's pay. At year-end one employee was participating in the plan at a cost of \$2,400 to the District.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), The District makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the District under this program.

Note 8 - Net Position

The financial statements utilize a net position presentation. Net position is categorized as Net investment in capital assets, Restricted Net Position, and Unrestricted Net Position.

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Debt and accumulated depreciation attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category represents net position of the District restricted for repayment of debt as per the debt covenants. A summary of restricted net position at December 31, 2015, was as follows:

Reserve for Rural Development Loans	\$	
Loan No. 9		17,146
Loan No. 11		50,653
Loan No. 13		31,146
		<hr/>
Total Reserve for Rural Development Loans		98,945
		<hr/>
Water Revenue Bonds		
Series 2012 - Reserve		68,217
Series 2012 - Principal & Interest		69,334
		<hr/>
Total Reserve for Water Revenue Bonds		137,551
		<hr/>
Total Restricted Net Position	\$	<u>236,496</u>

Unrestricted Net Position – This category represents net position of the District, not restricted for any project or other purpose.

Note 9 - Accounts Payable

A summary of accounts payable as presented in the Statement of Net Position at December 31, 2015, was as follows:

Accrued salaries payable	\$	7,466
Vendors and contractors		209,495
		<hr/>
Total accounts payable	\$	<u>216,961</u>

Note 10 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters for which the District carries commercial insurance.

During the year ended December 31, 2015, the District did not reduce insurance coverage from levels in place during the prior year. No settlements have exceeded coverage levels in place during the past three fiscal years.

Note 11 - Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statement were available to be issued.

Note 13 - Current and Non-Current Obligations

The financial statements include outstanding debt reported as current and non-current obligations. The District obtained financing for new construction through Rural Development, an agency of the United States Department of Agriculture. Rural Development provides loans, grants, and loan guarantees for drinking water, sanitary sewer, solid waste, and storm drainage facilities in rural areas, cities, and towns of 10,000 or less.

The financial statements recognize the loan proceeds and grants as other financing sources of the current period. See the schedule of current and non-current obligations and the schedule of maturity of current and non-current obligations.

Changes in current and non-current obligations for the District for the year ended December 31, 2015, were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
Water Revenue Bonds:									
Series 2012	1-4.5%	4/26/2012	\$ 2,945,000	11/1/2036	\$ 2,675,000	0	90,000	2,585,000	103,655
Rural Development Loans:									
Loan No. 9	4.250%	9/9/2004	320,000	9/9/2044	286,299	0	4,944	281,355	12,060
Loan No. 11	4.125%	3/8/2007	1,272,800	3/8/2047	1,182,541	0	18,004	1,164,537	48,392
Loan No. 13	4.125%	3/8/2007	782,600	3/8/2047	727,064	0	11,077	715,987	29,754
Total current and non-current obligations					\$ 4,870,904	0	124,025	4,746,879	193,861

On June 22, 2015, the District entered into a credit agreement with Co-Bank. The agreement provides for a maximum loan of \$2,100,000. The District obtained this to finance the construction of two new wells, a new tower, and the expansion of lines. As of December 31, 2015, no funds had been advanced. The District is paying a monthly commitment fee on the unused balance.

Notes to the Financial Statement

Maturities of current and non-current obligations and interest for the next five years and through maturity are as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021-2025</u>
Principal:						
Water Revenue Bonds	\$ 90,000	90,000	95,000	95,000	100,000	540,000
Rural Development Loans	34,506	35,964	37,482	39,065	40,715	230,867
Total principal	<u>124,506</u>	<u>125,964</u>	<u>132,482</u>	<u>134,065</u>	<u>140,715</u>	<u>770,867</u>
Interest:						
Water Revenue Bonds	102,305	100,730	98,930	96,745	94,275	419,025
Rural Development Loans	89,814	88,357	86,838	85,255	83,605	390,733
Total interest	<u>192,119</u>	<u>189,087</u>	<u>185,768</u>	<u>182,000</u>	<u>177,880</u>	<u>809,758</u>
Total principal and interest	<u>\$ 316,625</u>	<u>315,051</u>	<u>318,250</u>	<u>316,065</u>	<u>318,595</u>	<u>1,580,625</u>
	<u>2026-2030</u>	<u>2031-2035</u>	<u>2036-2040</u>	<u>2041-2045</u>	<u>2046-2047</u>	<u>TOTAL</u>
Principal:						
Water Revenue Bonds	\$ 660,000	820,000	95,000	0	0	2,585,000
Rural Development Loans	283,915	349,153	429,383	505,462	175,367	2,161,879
Total principal	<u>943,915</u>	<u>1,169,153</u>	<u>524,383</u>	<u>505,462</u>	<u>175,367</u>	<u>4,746,879</u>
Interest:						
Water Revenue Bonds	296,975	135,450	4,275	0	0	1,348,710
Rural Development Loans	337,685	272,447	192,217	94,083	7,141	1,728,175
Total interest	<u>634,660</u>	<u>407,897</u>	<u>196,492</u>	<u>94,083</u>	<u>7,141</u>	<u>3,076,885</u>
Total principal and interest	<u>\$ 1,578,575</u>	<u>1,577,050</u>	<u>720,875</u>	<u>599,545</u>	<u>182,508</u>	<u>7,823,764</u>



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Rural Water District No. 2
Trego County, Kansas

We have audited, in accordance with the auditing standards accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Rural Water District No. 2, Trego County, Kansas, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which comprise Rural Water District No. 2's basic financial statements, and have issued our report thereon dated August 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water District No. 2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water District No. 2's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mapes & Miller LLP

Certified Public Accountants
Quinter, Kansas

August 11, 2016

**RURAL WATER DISTRICT NO. 2
TREGO COUNTY, KANSAS**

Supplementary Information

December 31, 2015

Schedule 1 - Insurance Disclosure

The District maintained insurance coverage as follows:

	<u>Coverage</u>	<u>Deductible</u>	<u>Expiration</u>	<u>Premium</u>	<u>Carrier</u>
Commercial property	\$ 2,276,053	\$ 500	10/13/2016	\$ 8,876	EMC Insurance Companies
General liability	1,000,000	0	10/13/2016	2,831	EMC Insurance Companies
Inland marine	57,450	500	10/13/2016	987	EMC Insurance Companies
Workers compensation	500,000	0	10/13/2016	2,699	EMC Insurance Companies
Other - linebacker	1,000,000	1,500	10/13/2016	1,063	EMC Insurance Companies
Commercial automobile	1,000,000	500	5/14/2016	2,762	State Farm Insurance
Fidelity	200,000	2,000	3/17/2018	732	America First Insurance

Schedule 2 - Number of Customers Served

At December 31, 2015, the District reported 965 customers served.